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ABSTRACT

Endowment funds, created from private donations, have recently become a new funding source for public schools. Once endowed, these funds provide schools with extra monies that earn interest until they are needed. This publication describes how to start, develop, and profit from public school endowment funds. Initial considerations in setting up an endowment fund include tapping an individual leader, adopting an enabling school board policy, selecting a steering or planning committee, and writing a statement that clarifies the need for private support. Suggestions are also offered for organizing the incorporation paperwork, developing a timeline, selecting a board of directors, following the principles of fund raising, seeking donations from various sources, investing the funds, and disbursing the funds. Key ingredients in successfully forming a school endowment fund include beginning with singular leadership, involving others, completing the paperwork, raising funds, and remaining patient and visionary. Contacts for information on existing public school endowments or foundation funds in Illinois are listed. Appendices contain sample articles of incorporation and sample by-laws. (LMI)

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Public School Endowment Funds:
Starting, Developing, and Profiting

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Public School Endowment Funds:
Starting, Developing, and Profiting

by Peter Loehr

November 1992

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Public School Endowment Funds:
Starting, Developing, and Profiting

by Peter Loehr[1]

Private fund-raising in the United States is a multi-**billion** dollar a year enterprise. American individuals and corporations prove their generosity to charitable causes and organizations by contributing more than $120 billion annually. This represents approximately $2,000 per household. Of the billions contributed, some 85 percent is given by individuals while corporations contribute approximately 5 percent and other foundations and bequests contribute approximately 6 percent. Fund-raising is not a new concept. Individual and corporate giving has occurred in America for decades.

Endowment funds,[2] created from private giving, have a long tradition in higher education. However, recently they are becoming a new funding source for public schools as well. Once endowed, these funds provide schools with extra monies that earn interest until they are needed.

At a time when Illinois school districts are experiencing decreases in general and discretionary education funds, which enable schools to provide new materials and hands-on experience to improve student learning, the need for creative fund-raising to support education has never been greater. Due to expected difficulties in future fund-raising activities, **it may never again be this easy to raise endowment funds for public education**.

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[1]The author is assistant professor in the Department of Educational Administration and Supervision, College of Education, Western Illinois University. This Report was prepared with funding from Lt. Governor Bob Kustra, Chairman of the Rural Affairs Council. The author thanks Phyllis DeMark, Greater Lorain County (Ohio) Community Foundation; Dr. Harold Ford, Superintendent, Geneseo (Illinois) Schools; Dr. Robert Hall, Associate Professor, Educational Administration, Western Illinois University; Suzanne W. Humphrey, Director Field Service/Policy, Illinois Association of School Boards; Dr. James McGlamery, Superintendent, Wellington (Ohio) Exempted Village Schools; Lawrence Mortier, Director of Development, Western Illinois University; Robert Rogers, Superintendent, Scott-Morgan Community Unit Schools, Bluffs, Illinois; Herbert Strong, Senior Vice President, Union National Bank, Macomb, Illinois; Elinor Swiger, Esq., Robbins, Schwartz, Nicholas, Lifton, & Taylor, Ltd., Chicago; William F. Tracy, Esq., Miller, Tracy, Braun & Wilson, Ltd., Monticello, Illinois; and Dr. Robert Willis, Superintendent, Rock Island (Illinois) School District # 41.

[2]**Public endowment funds** and **public foundation funds** are similar types of funds. Both may be established to comply with Federal regulations for contributor tax deduction purposes. An **endowment fund** is a permanent fund using only the interest to support activities. A **foundation fund** is a more generic term and may or may not be structured in an endowment mode, or a partial endowment mode, or a revolving type of fund where the principal and interest are used. The by-laws determine which is which and generally the by-laws can be changed to change an endowment fund to a foundation, and vice versa. Although this article focuses on endowment funds, the same procedures apply to starting, developing, and profiting from foundation funds.

Reader's Notes

Setting-up an Endowment Fund—Initial Considerations

Purpose of Endowment Funds

One school district with a long tradition of an endowment fund has the following mission statement:

> The . . . School's Endowment Fund represents a long term effort to provide a stable source of funding for non-required school programs such as athletics, fine and performing arts, academics, and other extra-curricular activities. Endowment funds will not be used to fund the basic school program. All donations are tax-exempt. (Wellington Exempted Village Schools, Ohio)

The straightforward mission statement is used on literature advertising the endowment fund to explain the purpose of the fund. In particular, note this statement illustrates the "long-term effort" of the endowment fund, as well as its limitations, in this instance, that such funds will not be used to support basic school programs.

The Importance of Singular Leadership

Successful public school endowment funds are initially founded by one individual. That individual must have not only the initiative and foresight to see the long-term advantages of an endowment fund, but also the persistence to prepare necessary documents, establish the board of trustees, and initiate the fund. One individual willing to actively devote time and energies to realize a public school endowment fund is essential. Delegating the initial, formative tasks may result in failure. It is necessary to tap an individual who will utilize his/her leadership skills to ensure the endowment fund is a success.

Enabling Board Policy

Early in the process of forming a school endowment fund, the board of education will need to adopt a formal policy. The purpose of this policy is to permit the school administration to undertake the activities to form an endowment fund. The Illinois Association of School Boards (IASB) policy development service offers the following **sample** policy (#410.21) to assist boards in establishing a foundation:

> The School Board shall allow for a not-for-profit corporation to be established. A corporation, The District Foundation, shall be for the purposes of encouraging, receiving and administering donations to be used for the District's interests.
>
> The District Foundation shall be governed by a Board of Directors. Board membership and length of service shall be established and implemented according to the adopted by-laws of the District Foundation.
>
> The District Foundation Board of Directors' officers shall be a President, Vice-President, Secretary and Treasurer. The officers' duties, election and term of office shall be established and implemented according to the adopted by-laws of the District Foundation.

Reader's Notes

> The District Foundation shall be managed under by-laws adopted by the School Board and operated according with state law. (Illinois Association of School Boards, sample policy # 410.21)

Selecting a Steering or Planning Committee

Although singular leadership is essential, involving other interested parties is critical. Early in the start-up activities, there are tasks which can be accomplished better by a group than by one individual. Such tasks include:

- Developing a mission statement particular to the school district and community;
- Developing the endowment fund articles and by-laws (in conjunction with incorporation); and
- Selecting a board of directors/trustees.

The planning committee's work occurs **before** an endowment fund is announced. All formal papers (incorporation documents, tax identification forms, etc.) must be in place before a school district can claim to have a tax-exempt endowment fund. The planning committee serves as an architect to design, so that others (the board of directors or trustees) can actually construct the contributions.

Who typically should be on a planning committee? Naturally, persons who want to work with the formation of an endowment fund, especially those comfortable working behind-the-scenes with detailed organizational tasks should be involved. An important function of the initiator is to form the planning committee. If the superintendent of schools serves this role, the power of the office facilitates bringing people together. If, however, an inspired community resident—unrelated to the schools—starts the project (s)he will probably need to work with the superintendent to assemble the committee. The committee might include:

> The initiator/leader; the superintendent of schools; a board of education member; a teacher representative; support staff representative (e.g., secretary); parent representatives; (for example, a representative from the athletic boosters, a band parent, perhaps someone from an elementary-level PTA/PTO—input from such persons will be helpful in composing a representative purpose statement for the endowment fund.); a business and/or farming representative; and a local banker.

As with many working committees, membership should be committed to the project and be limited to a group small enough to work together, yet large enough to be representative of several segments of the school community. From the onset, the endowment fund should not be identified as an "exclusive" group. The image of including all segments will be important later in fund-raising activities.

Reader's Notes

Clarifying the Need for Private Support

People contribute to an endowment fund because they believe the money is needed, but don't assume it will be "obvious" to others that public schools need private support. In attracting private support it is important to emphasize that schools are assisted, but not supported entirely, by state and local financial funds and need additional financial support. A written statement explaining the need for private funds for local education is essential. It is also important to identify specific objectives or programs the endowment funds will support. For these reasons, a written statement explaining the need for private funds for local education is beneficial.

The American Association of State Colleges and Universities published a booklet *Establishing a University Foundation* (1989) containing the following sample statement, adaptable to public K-12 school endowment fund-raising activities.

> **Why the _____ School District Needs Private Support**
>
> Today, being good is not enough. Our mission is to achieve the highest level of excellence, which can be realized only through private support.
>
> Private support is vital to providing the flexibility indispensable to building sound educational and co-curricular programs. State support provides for only the minimum, but not for excellence.
>
> The _____ Schools are a source of educated people and enrichment for our community. By supporting this school system through private gifts, donors are making an investment that will be repaid handsomely in the ever-increasing quality of the students, faculty, staff, and alumni. (p. 12)

Planning committees making a simple statement about why private dollars are necessary to support public schools are encouraged to further change this statement to meet their particular needs, resources, and interests.

In composing this type of declaration the planning committee identifies its mission. This straightforward statement will be useful in formal fund-raising activities, publications, and presentations. Such a statement, however, is not cast in stone. It is subject to change at any time by either the planning committee or later by the board of trustees. It is important to convey the purpose of the endowment fund and its necessity.

Reader's Notes

Incorporation Paperwork

Section 501(c)(3) of the Internal Revenue Code provides for an organization to qualify for exemption from Federal income tax if it is organized and operated exclusively for educational purposes. This section of the Internal Revenue Code is significant to educational foundations because it makes contributions deductible as charitable contributions on Federal tax returns.

Publication 557 of the Internal Revenue Service discusses the application process for tax-exempt status. This publication is available at no cost from the IRS and may be ordered by phone (1-800-829-3676). Persons interested in starting a school endowment fund as well as their attorney or tax consultant will find this publication helpful.

For many educators establishing a school endowment fund, the greatest complication comes with not knowing how to begin a non-profit corporation. The technicalities of forming a non-profit corporation are beyond the usual school administration activities. However, in reviewing the articles of incorporation and the by-laws for several public school endowment funds it is clear that these documents follow a similar pattern. It is almost as though each utilized the same model. It is much easier and less time consuming to use established language and processes in the creation of new non-profits, and administrators are encouraged to utilize established successful models.

The Appendixes to this Report contain a sample of articles of incorporation and by-laws. Persons interested in forming a non-profit corporation in a public school district may wish to modify these "generic" materials to suit their particular needs.

Start-up Time Lines

Building a firm foundation for a school endowment fund, processing documents, and recruiting trustees are time-consuming tasks. However, a firm foundation prepares the fund for steady future successes. With even the most efficient administrators focusing time on the initial steps, at least one or two years are required before fund-raising can begin.

The following general time line can be seen as a guideline for establishing a public school fund:

Activity	Time
Developing the concept and adapting to specific local community needs; writing the goals and objectives for the endowment fund.	3 months
Completing and processing/filing required forms and incorporation documents.	6 months
Recruiting trustees or governing board directors.	4-9 months
Preparing and training for fund raising, developing literature, informing school employees.	9-12 months
Start of actual fund raising.	1 year

Reader's Notes

Some of these activities can occur concurrently. For example, developing goals and objectives can be done in conjunction with completing necessary legal and tax-exempt materials. It is important, however, not to begin accepting contributions until the paperwork has been completed. To do otherwise might jeopardize the tax-deductible status of contributions.

The paperwork required to start a school endowment fund is voluminous. One attorney, however, commented that "for long-term, good clients," many legal firms probably would contribute services to assist the school district—particularly if the articles of incorporation, by-laws, and other documents were fairly complete (written by the steering committee and then approved by the board of directors). However, for committees seeking to "let the attorney take care of the paperwork," the legal fees for composing articles of incorporation, by-laws, and completing the necessary state and Federal forms could range from $500 to $2,000.

Once the paperwork is complete and submitted to the Internal Revenue Service, approval of the school endowment fund as a non-profit corporation typically takes up to six months. One attorney commented, "There's no reason for the IRS to be quick." He continued, "however, approval of the 501(c)(3) status—the non-profit corporation—is virtually certain for public school districts."

In addition to the articles of incorporation and by-laws, Form 1023 ("Application for Recognition of Exemption, Under Section 501(c)(3) of the Internal Revenue Code") from the Department of the Treasury, Internal Revenue Service is required. Form 1023 provides for both obtaining exempt status and classification as "not a private foundation." This lengthy form (13 pages, excluding attachments) can be completed by most personnel familiar with the endowment fund purposes. An attorney or accountant familiar with organizing not-for-profit corporations should review the 1023 form before filing. The 1023 form is available from the IRS (1-800-829-3676).

Reader's Notes

Selecting a Board of Directors

The initial planning committee, which lays the groundwork for the endowment fund, is a separate entity from the board of directors, although some initial planning members may later serve on the board of directors.

Fund-raising is the most important function of the endowment fund board once the work of the steering committee has been ratified. Without funds, there is no endowment. Therefore, recommends Donald Lemish in *Establishing a University Foundation*, the first and primary qualification for board members should be their ability to give time, talent, or treasure (p. 25).

School endowment fund boards typically include 5 to 15 members. Additional factors to be considered in selecting the first board of directors for it to be representative of the community include:

- Male/female balance, minority inclusion, business/community, parents, political balance, and school personnel should all be considered;
- Consideration should also be given to the inclusion of an alumni and present student representative;
- Board members with special expertise might be beneficial (for example, an attorney, banker, or corporate executive);
- The music and athletic boosters should be involved, as well as directors from other foundations in the community; and
- Age diversity is another factor to consider when selecting directors so there is representation of various age groups in the community.

To illustrate, one steering committee selected the following for the initial board of directors:

- superintendent;
- banker;
- area realtor (also former graduate);
- booster club representative;
- long-standing community and civic leader;
- member of clergy; and
- board liaison;
- business owner;
- active parent;
- attorney;
- newspaper editor;
- student council president.

Although not all of these members were identified as prime fund-raisers, the steering committee did give consideration to financial resources in identifying potential board members. The minister, for example, was with an affluent church. The area realtor had been active with the schools and community, was widely respected, and was known for generosity to community causes. Although the steering committee did not consider the newspaper editor as a donor, the endowment fund could gain community awareness for fund raising activities through the support from the newspaper.

Reader's Notes

Principles of Fund-Raising

There are many fine techniques in successful fund-raising. Some of the activities are generic and apply to almost any fund-raising. Other activities are relevant to particular types of funds. The following principles of fund-raising are from undated information distributed by the Community Foundation of Greater Lorain County (Ohio), where all 16 school districts have endowment funds totaling more than $1 million.

1. Trustees should have personal fund-raising goals, agreed to by their campaign chair, rather than a blanket policy on how much trustees should give or raise.
2. School endowments with involved trustees will be more successful than those with uncommitted trustees.
3. A school endowment's annual goal should be the total of all the trustees' goals plus an additional 15 percent contingency goal.
4. Fund raising volunteers do not have to be trustees, but like trustees, they should have personal goals and should be kept well-informed of the campaign's progress.
5. To keep donors and to motivate them to increase their donations, send a receipt, thank you—communicate with them. Cultivate them!
6. Do not expect that for which you do not ask!!!
7. When soliciting contributions, know what programs the endowment will support. People enjoy knowing what they are supporting.
8. Donors (and prospective donors) are generally interested in proof that their money is producing the results that were promised when they were originally given. Know what mechanism you will use to carry this out.
9. People give to people. Face-to-face is the best solicitation method.
10. The purpose of the school endowment fund plays a major role in fund raising. Use the mission statement.
11. Tax considerations are seldom the basic motivation for giving. People support causes and purposes.
12. The majority of contribution dollars comes from individuals, not corporations. Focus on people.
13. The size of the contribution relates directly to the size of the goal. The more you seek, the more you get.
14. Ask for contributions with the conviction that your school endowment is doing an outstanding and important job for the students and school. You are not asking for money for yourself.
15. The more sources of income you have, the more stable your funding becomes.
16. There should be a **written strategic plan** that outlines the fund-raising tasks, responsibilities, goals, and objectives.

While this list of principles is not exhaustive, it provides a good example of principles followed by one successful Foundation in the public school sector.

Reader's Notes

Donations Come from Many Sources

Obtaining contributions is the essence of activities for a school endowment fund, and trustees are important (but not the only) players in motivating, organizing, and executing varied fund-raising approaches. No single avenue is the best road to a healthy, wealthy endowment fund. The more varied the sources, the more stable the income (Principle Number 15). There are many sources of contributions for a school endowment fund. The specific characteristics of a community, the trustees, and giving patterns produce alternative patterns of giving for each community.

There are a variety of contribution goals and fund-raising strategies to use.

- **Payroll deductions**. This approach can be lucrative on an on-going basis. A few dollars each payday from employees quickly adds up. Furthermore, once employees are in the habit of giving, they can regularly increase the payroll amount as they receive salary raises.

- **Individual contributions by solicitation request**. Many endowment funds receive significant individual contributions because of person-to-person **contact** by a trustee. Sometimes donors want to be one of the first contributors in order to get the endowment fund started. Initial gifts of $25,000 or more are not uncommon from individuals and offer an excellent opportunity for news media coverage.

- **Alumni giving contests and appeals**. Alumni can be one of the most positive support groups for a school endowment fund. They have a vested interest in maintaining and strengthening **their** school. Both individual, group, and class appeals can be effective in fund-raising.

- **Annual (and renewable) pledges**. The United Way Appeal illustrates the success of using annual and renewable pledges to get a small, regular contribution from many persons. Through payroll deductions and direct cash contributions, many persons are accustomed to support the United Way.

- **Business donations**. The positive motivation reminder of a plaque with the year(s) of giving may encourage annual contributions from businesses in the community. A few dollars from each business on an annual basis not only adds up, but increases public awareness of support for the endowment fund.

- **Civic groups/clubs contributions**. Often when trustees or school employees speak at local civic groups and clubs about the endowment fund they receive contributions. In subsequent years, annual appeals can be made.

- **Parent group gifts**. Music and athletic boosters can make regular contributions to the school endowment fund because such donations provide support forever. It may also be successful to provide giving categories for special interest groups—music and athletic special funds might be attractive in this situation.

Reader's Notes

- **Benefits, craft shows, special events**. These increase public awareness of the endowment fund and are positive school-community events. Auctions, raffles for quilts or counted-cross stitch, and selling donated services are popular types of fund-raising activities that increase public awareness and support for the school endowment fund.

- **Golf tournaments**. Some endowment funds have used an annual golf tournament as a fund-raising activity. It increases community awareness, is an enjoyable venture, and is effective.

- **Life insurance and will bequests**. As communities become more familiar with the school endowment fund, as alumni contribute more, and especially as persons become aware of the many benefits, life insurance and will bequests have long-term potential for increasing the fund.

- **Corporate contributions**. Some corporations have matching funds for employee contributions to selected charities. Arrangements should be cooperatively coordinated with the corporations and employee groups. Depending on the corporation, payroll deductions and corporate matching might also be available for the school endowment fund.

- **Gifts from graduating class**. Contributions may be forthcoming from the graduating class by working with the senior class sponsor. Also, excess funds from previous classes might be available for the school endowment fund.

- **Dinners and pancake breakfasts**. In small communities, trustees might host a pancake breakfast not only to earn money for the endowment fund, but to increase awareness and provide a positive school-community function. This could also be in conjunction with a secondary focus, for example, a workshop on wills (time donated by a local attorney). Appeals for contributions to the endowment fund could be made while advising participants on wills. Materials can be made available for distribution in attorney offices and banks.

- **Car washes, auctions**. Car washes are a particularly good way to get junior high age students actively involved. Although these are not "high income" activities, all revenue adds to the total and they raise the level of awareness about the program.

- **Solicitation letters to target groups**. Not only might contributions be available from particular groups (unions, social, religious, civic, etc.) within the school district, funds might also be available from outside the district. Trustees and others involved with planning fund-raising activities and solicitation should be aware of sources from outside the school district.

Reader's Notes

Investing the Funds: Who Watches the Pot of Gold?

If there is a community foundation with 501(c)(3) status available to the school endowment fund, and if the trustees of both the school endowment fund and the community foundation so desire, depositing the school endowment funds in the community foundation might be advantageous. A major advantage is the elimination of the 501(c)(3) paperwork. The Lorain County (Ohio) Community Foundation is an example of one of the nation's most active community foundations working with local school endowment funds.

Planning committees with a local community foundation needing more information on this type of partnership for fund management may contact the Community Foundation of Greater Lorain County (phone: 216/277-0142).

There are, however, few community foundations in Illinois, except in the largest population areas. Most school endowment funds seek assistance in managing endowment funds from local banks with trust departments. One bank trust officer commenting on local banks' and "the big city" banks' abilities, said "There may not be a significant difference between income from investments made by a small bank trust department and that of a large city bank's trust department. Each deals in the same market with the same information. Size by itself does not make a difference."

Generally banks charge a fee for managing an endowment account. Fees are normally based on the market value of assets under management. A fraction of a percent is applied to the value of the fund. Once the value of the fund reaches a certain size, the fraction may be reduced on the additional fund value. Planning committees and trustees are encouraged to consult with local banks which have trust departments to discuss this in detail.

Initially, a simple interest-bearing savings account can be used for endowment deposits (without paying for trust fund management services). The interest-bearing savings account can be a satisfactory and secure depository until the fund is large enough to require the expertise of a trust fund manager who will diversify the monies into a number of asset classes. To safeguard the funds, the by-laws of the endowment fund corporation could provide for an annual audit and prohibit withdrawal of the principal.

Although the local bank trust officer can be an endowment fund trustee, there would be a conflict of interest if that person's bank is the depository for the school endowment funds. Each planning committee and board of trustees should discuss the details of deposits with a local bank or trust department where the endowment funds should be deposited, both in the initial stages, and later, as the fund increases.

The amount deposited in the endowment fund is important in determining the most advantageous depository and fund management system. An interest-bearing savings account works for small amounts (under $100,000), whereas a bank-managed trust account may earn more annual revenue on investments for amounts over $100,000 (even after deducting the bank's management costs).

Reader's Notes

Disbursing Funds: The Real Purpose

The paperwork, incorporation papers, by-laws, strategy plans and objectives, trustees, and fund raising activities have one end goal: to dispense the income earned from endowment fund investments to help students. The beauty is that, once established, the principal remains intact and only the interest earned is spent (or reinvested back in the endowment fund as principal).

When receipts to the endowment fund are designated by category (e.g., athletics, band, general, gifted and talented programs, etc.), the interest earned must be distributed accordingly. Also, requests for endowment funding must be identified by category.

One school endowment fund, distributing more than $25,000 in earned interest annually, uses a standard application form distributed to school employees seeking funding opportunities. The one page form requires the applicant to indicate the objectives of the grant, how success will be evaluated, number of students involved, and why general education funds are not available for the desired activity. The short answers for each area are then numerically evaluated anonymously by reviewers and grants are awarded based on the number of points.

Each board of trustees is encouraged to develop application procedures and criteria appropriate for its endowment fund. The application form and process should be easy and quick, yet generate a sufficient paper trail to justify awarding and rejecting grant applications. Also, all school employees and community residents should be encouraged (as funds permit) to apply for endowment fund project grants. If people's money is accepted for the endowment fund, so should be their requests for project funding.

Reader's Notes

Conclusion

An endowment fund offers significant potential to school districts for long-term funding of activities not funded by general education funds. Successful endowment funds outlive their originators. Endowment funds are a gift of perpetuity to schools and communities. They last forever!

The key ingredients in making a positive contribution to perpetuity by successfully forming a school endowment fund are:

- **Initial singular leadership — one person starts the ball rolling and keeps it on schedule** — is critical, whether this is a school superintendent, principal, board member, or community member;

- **Involving others — board of education members, initial steering committee members, trustees** — who are committed to donating time, talents, and funds and who share a vision of the endowment fund's long-term, positive impact;

- **Completing the paperwork — incorporation papers, by-laws, application forms for tax exempt status** — so that large contributions can be tax deductible for donors;

- **Fund-raising — the job of persons involved with an endowment fund: Establishing goals, objectives, activities**; and

- **Being patient, steady, and visionary** — to keep the million-dollar goal in sight, knowing that the initial steps provide a strong basis for future activities that lead to long-term growth. Each step leads to a permanent improvement, providing the initial steps are made with patient, steady vision.

Reader's Notes

Sample Endowment Funds in Illinois

For information on existing public school endowment or foundation funds in Illinois, contact the following:

Dr. Harold Ford, Superintendent
Geneseo Community Schools
209 South College
Geneseo, Illinois 61254
Phone: 309/944-2159

The Geneseo Schools endowment fund has assets of $250,000. Revenue is used to support projects which usually are not funded by the general education accounts. Innovations, selected staff development activities, and special projects for students illustrate activities supported by the endowment fund. Geneseo is a small town with some small businesses. The town also serves as a bedroom community for persons working in the Quad Cities. Geneseo schools have 3,000 students.

Robert G. Rogers, Superintendent
Scott-Morgan Community Unit Schools
100 West Rockwood
Bluffs, Illinois 62621
Phone: 217/754-3714

The assets of the Scott-Morgan foundation are less than $10,000. At the time of this writing, funds have not been distributed, but are maintained and interest re-invested for future use to support technology education by paying student tuition for TI-IN courses. Scott-Morgan Community Schools have 320 students, grades K-12, and serve three small rural towns.

Catherine Huther
Springfield Public School District
1900 West Monroe Street
Springfield, Illinois 62704
Phone: 217/525-3006

The Springfield Schools endowment fund is an example of a large school district fund.

Peter Loehr
Illinois Institute for Rural Affairs
Western Illinois University
Macomb, Illinois 61455
Phone: 309/298-2237

Author of this report.

Reader's Notes

Appendix 1: Sample Articles of Incorporation

State of Illinois
County of _____

The undersigned, desiring to form a non-profit corporation under the Illinois "Non-Profit Corporation Act," with all of the powers of a corporation organized under said act and under the constitution and laws of Illinois, file these Articles of Incorporation and certify as follows:

Article I. Name

The name of the corporation shall be the _____ School District Foundation (hereinafter called the "Corporation").

Article II. Location

The place in this state where the principal office of the Corporation is to be located is the City of _____, _____ County.

Article III. Duration

The period of duration of the corporation shall be perpetual.

Article IV. Purposes

The corporation is organized exclusively for educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986 (or the corresponding provisions of any future United States Internal Revenue law). The corporation shall operate exclusively for the benefit of the _____ School District in [city/location].

Article V. Powers

Without limiting the general powers granted to the corporation by Illinois law, the corporation shall have the following specific powers:

The property, affairs, and business of the Corporation shall be managed by the Directors.

Article VI. Use of Earnings and Lobbying Activities

No part of the net earnings of the corporation shall inure to the benefit of, or be distributable to its members, trustees, officers, or other private persons, except that the corporation shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of the purposes set forth in Article IV hereof. No substantial part of the activities of the corporation shall be the carrying on of propaganda, or otherwise attempting to influence legislation, and the corporation shall not participate in, or intervene in (including the publishing or distribution of statements) any political campaign on behalf of or in opposition to any candidate for public office. Notwithstanding any other provision of these articles, the corporation shall not carry on any other activities not permitted to be carried on (a) by a corporation exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code, or

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corresponding section of any future federal tax code, or (b) by a corporation, contributions to which are deductible under section 170(c)(2) of the Internal Revenue Code, or corresponding section of any future federal tax code.

Article VII. Members

The corporation shall have no members.

Article VIII. Board of Directors

The names and addresses of the persons who are the initial trustees of the corporation are as follows:

_____City, State_

_____City, State_

_____City, State_

_____City, State_

_____City, State_

_____City, State_

_____City, State_

Article IX. Dissolution

Upon the dissolution of the corporation, assets shall be distributed for one or more exempt purposes within the meaning of section 501(c)(3) of the Internal Revenue Code, or corresponding section of any future federal tax code, or shall be distributed to the federal government, or to a state or local government, for a public purpose. Any such assets not so disposed of shall be disposed of by the Court of Common Pleas of the county in which the principal office of the corporation is then located, exclusively for such purposes or to such organization or organizations, as said Court shall determine, which are organized and operated exclusively for such purposes.

Article X. Registered Agent

The principal and initial registered office of the corporation shall be at [Room, building, city, state and ZIP code]. The initial registered agent of the corporation shall be [name].

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Article XI. Incorporators

The names and addresses of the incorporators of the corporation are:

_____City, State_

_____City, State_

_____City, State_

_____City, State_

_____City, State_

_____City, State_

_____City, State_

IN WITNESS WHEREOF, the undersigned incorporators have executed these Articles of Incorporation this _____ day of _____ [year].

_____

[name as above]

_____

[name as above]

_____

[name as above]

_____

[name as above]

_____

[name as above]

_____

[name as above]

_____

[name as above]

STATE OF ILLINOIS

COUNTY_____

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I, the undersigned, a Notary Public in and for said County in said State, hereby clarify that [name], [name], [name], [name], [name], [name], and [name], whose names are signed to these Articles of Incorporation, and who were made known to me, acknowledged before me on this day that, being informed of the contents of said Articles of Incorporation, they executed the same voluntarily on the day the same bears date.

_____

Notary Public

Source: U.S. Department of the Treasury. Internal Revenue Service. *Tax-Exempt Status for Your Organization*. Publication 557. Washington, D.C.: Government Printing Office, 1988 (Slightly modified).

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Appendix 2: Sample By-Laws

Whereas the articles of incorporation contain rather standard language, the by-laws for a corporation are highly individualized and regulate the day-to-day activities of the corporation. The sample here is written in perhaps more "legalistic" phrases than commonly found in school endowment fund by-laws. There is no requirement for any particular style of language, as long as the meaning is clear and can be consistently interpreted.

Article 1. Offices

The corporation shall maintain in the State of Illinois a registered office and a registered agent at such office and may have other offices within or without the state.

Article II. Members

Section 1. CLASSES OF MEMBERS. The corporation shall have one class of nine (9) members. The designation of each class and the qualifications of the members of each class shall be as follows:

Each member of the corporation shall be a member of the board of directors.

Section 2. ELECTION OF MEMBERS. Members shall be elected by the board of directors. An affirmative vote of two-thirds of the directors shall be required for election.

Section 3. VOTING RIGHTS. Each member shall be entitled to one vote on each matter submitted to a vote of the members.

Section 4. TERMINATION OF MEMBERSHIP. The board of directors by affirmative vote of two-thirds of all of the members of the board may suspend or expel a member for cause after an appropriate hearing.

Section 5. RESIGNATION. Any member may resign by filing a written resignation with the Secretary.

Section 6. REINSTATEMENT. Upon written request signed by a former member and filed with the Secretary, the board of directors may, by the affirmative vote of two-thirds of the members of the board, reinstate such former member to membership upon such terms as the board of directors may deem appropriate.

Section 7. TRANSFER OF MEMBERSHIP. Membership in this corporation is not transferable or assignable.

Section 8. NO MEMBERSHIP CERTIFICATES. No membership certificates of the corporation shall be required.

Article III. Meeting of Members

Section 1. ANNUAL MEETING. An annual meeting of the members shall be held on the first day of March of each year for the purpose of electing directors and for the transaction of such other business as may come before the meeting. If such day be a Sunday or a legal holiday, the meeting shall be held at the same hour on the next successive business day.

Section 2. SPECIAL MEETING. Special meetings of the members may be called either by the president, the board of directors, or not less than one-third of the members having voting rights.

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Section 3. PLACE OF MEETING. The board of directors may designate any place as the place of meeting for any annual meeting or for any special meeting called by the board of directors. If no designation is made or if a special meeting be otherwise called, the place of meeting shall be the registered office of the corporation in the State of Illinois.

Section 4. NOTICE OF MEETINGS. Written notice stating the place, date, and hour of any meeting of members shall be delivered to each member entitled to vote at such meeting not less than five nor more than forty days before the date of such meeting. In case of a special meeting or when required by statute or by these by-laws, the purpose for which the meeting is called shall be stated in the notice. If mailed, the notice of a meeting shall be deemed delivered when deposited in the United States mail addressed to the member at his/her address as it appears on the records of the corporation, with postage prepaid.

Section 5. QUORUM. A majority of the board of directors shall constitute a quorum for the transaction of business at any meeting of the board, provided that if less than a majority of the directors are present at said meeting, a majority of the directors present may adjourn the meeting to another time without further notice.

Article IV. Board of Directors

Section 1. GENERAL POWERS. The affairs of the corporation shall be managed by its board of directors.

Section 2. NUMBER, TENURE, AND QUALIFICATIONS. The number of directors shall be nine (9). The board of directors shall be divided into three classes in respect to term of office. Each class shall contain as near as may be one-third of the total number of directors. The directors of one class shall serve until the annual meeting of the board of directors held in the calendar year following their appointment. The members of the second class shall serve until the annual meeting of the board of directors held on the second calendar year following their appointment and the members of the third class shall serve until the annual meeting of the board of directors held in the third calendar year following their appointment. Each director shall hold office until his/her respective annual meeting and until his/her successors have been duly elected and qualified. Directors need not be residents of Illinois. The number of directors may be decreased for not fewer than three or increased to any number from time to time by amendment to this Section plus shall be made only by amendment of the articles of incorporation. The board may elect ex officio directors at its pleasure. Ex officio directors shall have no vote.

Section 3. REGULAR MEETINGS. A regular annual meeting of the board of directors shall be held without other notice than these by-laws immediately after and at the same place as the annual meeting of members. The board of directors may provide by resolution the time and place for holding of additional regular meetings of the board without other notice than such resolution.

Section 4. SPECIAL MEETINGS. Special meetings of the board of directors may be called by or at the request of the president or any two directors. The person or persons authorized to call special meetings of the board may fix any place as the place for holding any special meeting of the board called by them.

Section 5. NOTICE. Notice of any special meeting of the board of directors shall be given at least two days previously thereto by written notice to each director at his address as shown by the records of the corporation. If mailed, such notice shall be deemed

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to be delivered when deposited in the United States mail in a sealed envelope so addressed, with postage thereon prepaid. If notice be given by telegram, such notice shall be deemed to be delivered when the telegram is delivered to the telegraph company. Notice of any special meeting of the board of directors may be waived in writing signed by the person or persons entitled to the notice either before or after the time of the meeting. The attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at nor the purpose of any regular or special meeting of the board need be specified in the notice or waiver of notice of such meeting, unless specifically required by law or by these by-laws.

Section 6. QUORUM. A majority of the board of directors shall constitute a quorum for the transaction of business at any meeting of the board, provided that if less than a majority of the directors are present at said meeting, a majority of the directors present may adjourn the meeting to another time without further notice.

Section 7. MANNER OF ACTING. The act of a majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors, unless the act of a greater number is required by statute, these by-laws, or the articles of incorporation.

Section 8. VACANCIES. Any vacancy occurring in the board of directors or any directorship to be filled by reason of an increase in the number of directors shall be filled by the board of directors unless the articles of incorporation, a state, or these by-laws provide that a vacancy or a directorship so created shall be filled in some other manner, in which case such provision shall control. A director elected to fill a vacancy shall be elected for the unexpired term of his/her predecessor in office.

Section 9. COMPENSATION. Directors shall not receive any stated salaries, expenses, or any other compensation for their services.

Article V. Officers

Section 1. OFFICERS. The officers of the corporation shall be a president, a treasurer, a secretary, and such other officers as may be elected by the board of directors. Officers whose authority and duties are not prescribed in these by-laws shall have the authority and perform the duties prescribed from time to time by the board of directors. Any two or more offices may be held by the same person, except the offices of president and secretary.

Section 2. ELECTION AND TERM OF OFFICE. The officers of the corporation shall be elected annually by the board of directors at the regular annual meeting of the board of directors. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as conveniently may be. Vacancies may be filled or new offices created and filled at any meeting of the board of directors. Each officer shall hold office until his or her successor shall have been duly elected and shall have qualified or until his or her death or until (s)he shall resign or shall have been removed in the manner hereinafter provided. Election of an officer shall not of itself create contract rights.

Section 3. REMOVAL. Any officer elected or appointed by the board of directors may be removed by the board of directors whenever in its judgment the best interests of the corporation would be served thereby, but such removal shall be without prejudice of the person so removed.

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Section 4. PRESIDENT. The president shall be the principal executive officer of the corporation. Subject to the direction and control of the board of directors, (s)he shall be in charge of the business and affairs of the corporation; (s)he shall see that the resolutions and directives of the board of directors are carried into effect except in those circumstances in which that responsibility is assigned to some other person by the board of directors; and, in general, (s)he shall discharge all duties incident to the office of president and such other duties as may be prescribed by the board of directors. He shall preside at all meetings of the members and of the board of directors. Except in those instances in which the authority to execute is expressly delegated to another officer or agent of the corporation or a different mode of execution is expressly prescribed by the board of directors or these by-laws, (s)he may execute for the corporation any contracts, deeds, mortgages, bonds, or other instruments which the board of directors has authorized to be executed, and (s)he may accomplish such execution either under or without the seal of the corporation and either individually or with the secretary or any other officer there unto authorized by the board of directors, according to the requirements of the form of the instrument. (S)he may vote all securities which the corporation is entitled to vote except as and to the extent such authority shall be vested in a different officer or agent of the corporation by the board of directors.

Section 5. TREASURER. The treasurer shall be the principal accounting and financial officer of the corporation. (S)he shall: (a) have charge of and be responsible for the maintenance of adequate books of account for the corporation; (b) have charge and custody of all funds and securities of the corporation and be responsible therefore and for the receipt and disbursement thereof; and (c) perform all the duties incident to the office of treasurer and such other duties as from time to time may be assigned to him/her by the president or by the board of directors. If required by the board of directors, the treasurer shall give a bond for the faithful discharge of duties in such sum and with such surety or sureties as the board of directors shall determine, the premium of such both being a legal expense of the corporation.

Section 6. SECRETARY. The secretary shall record the minutes of the meetings of the members and of the board of directors in one or more books provided for that purpose; see that all notices are duly given in accordance with the provisions of these by-laws or as required by law; be custodian of the corporate records and of the seal of the corporation; keep a register of the post office address of each member which shall be furnished to the secretary by such member; and perform all duties incident to the office of secretary and such other duties as from time to time may be assigned by the president or by the board of directors.

Article VI. Committees

Section 1. COMMITTEES OF DIRECTORS. The board of directors, by resolution adopted by a majority of the directors in office, may designate one or more committees, each of which shall consist of one or more directors, which committees, to the extent provided in said resolution and not restricted by law, shall have and exercise the authority of the board of directors in the management of the corporation; but the designation of such committees and the delegation thereto of authority shall not operate to relieve the board of directors, or any individual director, of any responsibility imposed upon it or him/her by law.

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Section 2. OTHER COMMITTEES. Other committees not having and exercising the authority of the board of directors in the corporation may be designated by a resolution adopted by a majority of the directors present at a meeting at which a quorum is present. Except as otherwise provided in such resolution, members of each such committee shall be members of the corporation, and the president of the corporation shall appoint the members thereof. Any member thereof may be removed by the person or persons authorized to appoint such member whenever in their judgment the best interests of the corporation shall be served by such removal.

Section 3. TERM OF OFFICE. Each member of a committee shall continue as such until the next annual meeting of the members of the corporation and until a successor is appointed, unless the committee shall be sooner terminated, or unless such member be removed from such committee, or unless such member shall cease to qualify as a member thereof.

Section 4. CHAIRPERSON. One member of each committee shall be appointed chairperson by the president or if (s)he desires by the committee itself, unless the resolution by the board of directors establishing the committee provides for the method by which a chairperson is selected.

Section 5. VACANCIES. Vacancies in the membership of any committee may be filled by appointments made in the same manner as provided in the case of the original appointments.

Section 6. QUORUM. Unless otherwise provided in the resolution of the board of directors designating a committee, a majority of the whole committee shall constitute a quorum and the act of a majority of the members present at a meeting at which a quorum is present shall be the act of the committee.

Section 7. RULES. Each committee may adopt rules for its own government not inconsistent with these by-laws or with rules adopted by the board of directors.

Article VII. Contracts, Checks, Deposits, and Funds

Section 1. CONTRACTS. Only the board of directors may enter into any contract or execute and deliver any instrument in the name of and on behalf of the corporation and such authority shall be confined to specific instances.

Section 2. CHECKS, DRAFTS, ETC. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the corporation shall be signed by the secretary and treasurer after the majority of directors approves payment.

Section 3. DEPOSITS. All funds of the corporation shall be deposited upon receipt to the credit of the corporation in such banks, trust companies, or other depositories as the board of directors may select.

Section 4. GIFTS. The board of directors may accept on behalf of the corporation any contribution, gift, bequest, or device for the general purpose or for any special purpose of the corporation.

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Article VIII. Books and Records

The corporation shall keep correct and complete books and records of account and shall also keep minutes of the proceedings of its members, board of directors, and committees having any of the authority of the board of directors, and shall keep at the registered or principal office records giving the names and addresses of the members entitled to vote. All books and records of the corporation may be inspected by any member, or his/her agent or attorney for any proper purpose at any reasonable time.

Article IX. Fiscal Year

The fiscal year of the corporation shall be fixed by resolution of the board of directors.

Article X. Seal

The corporate seal shall have inscribed thereon the name of the corporation and the words "Corporate Seal, Illinois."

Article XI. Amendments

The power to alter, amend, or repeal the by-laws or adopt new by-laws shall be vested in the board of directors unless otherwise provided in the articles of incorporation or the by-laws. Such action may be taken at a regular or special meeting for which written notice of the purpose shall be given. The by-laws may contain any provisions for the regulation and management of the affairs of the corporation not inconsistent with law or the articles of incorporation.

Source: Rock Island-Milan Education Foundation.

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